

UPPER CLARK FORK RIVER BASIN RESTORATION FUND FISCAL YEAR END 2004 STATUS REPORT

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Background

On April 19, 1999, the U.S. District Court for the District of Montana approved a consent decree between the Atlantic Richfield Company (ARCO) and the State of Montana. This decree partially settled the State's natural resource damage lawsuit against ARCO to recover damages for injuries to the public's natural resources in the Upper Clark Fork River Basin (UCFRB). In addition to the payment of \$15 million for assessment and litigation costs, \$80 million for Silver Bow Creek remediation costs, and transfer to the State of land worth \$2 million, ARCO agreed to pay the State \$118 million on or before July 18, 1999, plus interest from April 6, 1998. With interest, ARCO's payment to the State totaled approximately \$129.3 million. Under the terms of the Consent Decree, \$10 million of that was set aside in the Silver Bow Creek Reserve Fund to be used, if necessary, for certain types of cost overruns incurred in the remediation of Silver Bow Creek. The remaining \$119.3 million, plus \$460,000 in leftover assessment cost settlement funds, were deposited in the Restoration Fund to restore or replace the natural resources injured and/or the services lost as a result of hazardous substance releases that were the subject of the Montana v. ARCO lawsuit.

The Montana Board of Investments manages both funds, which are split among a variety of investment vehicles:

- Liquidity is provided by the Short Term Investment Pool (STIP).
- Securities with maturities out to 10 years are used for short-to-intermediate term investments.
- Long-term investments are made in the Trust Funds Bond Pool (TFBP). The majority of the settlement funds are invested in the TFBP.

UCFRB Restoration Fund Status

The attached table provides a financial revenue summary for the Restoration Fund investments. Investments are divided between the TFBP – 85%, the STIP – 3%, and government or corporate securities – 12%. The five securities mature between 2004 and 2035. The book value as of June 30, 2004 was approximately \$150.8 million; the market value was approximately \$155.5 million¹. The book value represents securities' cost values, plus or minus amortized premiums or discounts. The market value represents the estimated value of securities or units in the STIP or TFBP on 6/30/04.

Between January 1998 and July 2004, interest revenues of the Restoration Fund have totaled \$46,477,247.² Monthly interest revenues in the past six months averaged \$872,281. The

¹ These fund balances include fiscal year end adjustments that are not included in the attached table.

² With the market adjustment, interest revenues between January 1998 and July 2004 totaled \$51,219,902.

Trustee's current policy regarding available grant funds is that only interest earned on the principle in the coming years will be expended, unless the Trustee finds that it is appropriate to invade the principle to fund significant or time-critical projects.

The attached table summarizes Restoration Fund expenses to date by fiscal year. Expenses total \$15,481,703 from January 1998 through June 2004. The Montana Department of Fish, Wildlife and Parks (MFWP) has expended \$340,684 of the \$3.2 million allocated by the Consent Decree for wetland/riparian enhancement in the UCRFB and \$89,531 of the \$500,000 allocated in the Consent Decree for bull trout restoration. Advisory Council expenses total \$102,273. The Natural Resource Damage Program (NRDP) expenses total \$2,536,369 for restoration program development and implementation, Milltown negotiations and restoration planning, and consent decree implementation activities. The majority of the Restoration funds (90%) have been either spent (\$12,945,335) on or approved for expenditure on grant projects (\$11,438,134) approved by the Governor.

Without market adjustments considered, the net increase in the Restoration Funds between July 1999 and July 2004 is about \$31 million (\$46.5 in interest revenue minus \$15.5 in expenditures).³

Silver Bow Creek Reserve Fund Status

Between January 1998 and July 2004, interest revenues from the \$10 million set aside in the Silver Bow Creek Reserve Account totaled \$4,258,285.⁴ The fiscal year end fund balance without the market adjustment is \$14,258,274. The monthly income amount has averaged \$86,634 per month in the last six months. Approximately 99% of these funds are invested in the TFBP, with the remaining balance in STIP. When it is determined that this money is not needed for Silver Bow Creek remediation activities, it will be transferred to the Restoration Fund.

The attached table provides a comparison of revenues and expenditures for the Restoration Fund.

³ With market adjustments considered, the net increase in the Restoration Fund is about \$35.7 million.

⁴ With the market adjustment, interest revenues to the Silver Bow Creek Reserve Fund between July 1999 and July 2004 totaled \$4,652,596. The fiscal year end fund balance with the market adjustment is \$14,652,586.

UCFRB RESTORATION FUND 4th QUARTER FY 2004 EXPENSES

Entity	1st Quarter '04	2nd Quarter '04	3rd Quarter '04	4th Quarter '04	Total
MFWP	\$0.00	\$40,000.00	40,000.00	0.00	\$80,000.00
MFWP bulltrout	\$7,901.01	\$4,312.70	12,062.42	16,261.20	\$40,537.33
NRDP Restoration					\$0.00
Operating	\$35,613.54	\$51,203.00	32,650.86	28,067.30	\$147,534.70
Personnel	\$40,277.75	\$41,409.66	51,969.54	56,587.86	\$190,244.81
Advisory Council	\$589.56	\$1,058.73	1,041.52	9,455.61	\$12,145.42
Silver Bow Creek Land Transfer	\$0.00		0.00		\$0.00
Silver Bow Creek Planning	\$8,491.66	\$16,563.33	22,865.27	3,107.07	\$51,027.33
Milltown	\$22,423.32	\$18,254.56	26,056.12	29,886.07	\$96,620.07
Subtotal	\$115,296.84	\$172,801.98	\$186,645.73	\$143,365.11	\$618,109.66
NRD Grants	\$280,165.09	\$1,161,387.39	295,675.78	344,977.63	\$2,082,205.89
Total	\$395,461.93	\$1,334,189.37	\$482,321.51	\$488,342.74	\$2,700,315.55

Total Grant Money Allocated
but Not Spent

\$11,438,134.01

Total UCFRB RESTORATION FUND EXPENSES

Entity	1/1/98 TO 7/1/00	FY01	FY02	FY03	FY 04	TOTAL
MFWP Admin		\$40,000.00	80,000.00	120,000.00	80,000.00	\$320,000.00
MFWP Wetland/Riparian	\$49,653.00	\$1,000.00	1,800.00	21,892.50	0.00	\$74,345.50
MFWP bulltrout	\$0.00	\$0.00	0.00	48,993.44	40,537.33	\$89,530.77
Advisory Council	\$38,349.14	\$25,246.07	9,903.78	16,628.57	12,145.42	\$102,272.98
NRDP Restoration	\$315,459.27	\$306,368.63	291,415.71	305,299.71	337,779.51	\$1,556,322.83
Silver Bow Creek Land Transfer	\$0.00	\$249.50	2,414.50	980.41	0.00	\$3,644.41
Silver Bow Creek Planning			27,096.77	121,832.67	51,027.33	\$199,956.77
Milltown			8,805.89	84,869.77	96,620.07	\$190,295.73
Subtotal	\$403,461.41	\$372,864.20	\$421,436.65	\$720,497.07	\$618,109.66	\$2,536,368.99
NRD Grants		\$4,510,783.43	2,222,402.04	4,129,943.45	2,082,205.89	\$12,945,334.81
Total	\$403,461.41	\$4,883,647.63	\$2,643,838.69	\$4,850,440.52	\$2,700,315.55	\$15,481,703.80

*MFWP has received transfers in the amount of \$320,000 (other than the amount spent on riparian/wetland) but has expended \$318,792.30 as of 6/30/04.

COMPARISON OF REVENUES AND EXPENSES

	FY99	FY00	FY01	FY02	FY03	FY 04	TOTAL
Interest Revenues	\$3,070.63	\$8,107,715.13	9,299,113.11	\$9,514,244.11	\$9,510,511.94	10,042,592.11	46,477,247.03

Expenses: \$0.00

Program (NRD, FWP, Advisory)	\$0.00	\$403,461.41	372,864.20	\$421,436.65	\$720,497.07	\$618,109.66	2,536,368.99
Grants	\$0.00		4,510,783.43	\$2,222,402.04	\$4,129,943.45	\$2,082,205.89	12,945,334.81
Total Expenses	\$0.00	\$403,461.41	\$4,883,647.63	\$2,643,838.69	\$4,850,440.52	\$2,700,315.55	15,481,703.80
Difference (REV - EXP)	\$3,070.63	\$7,704,253.72	\$4,415,465.48	\$6,870,405.42	\$4,660,071.42	\$7,342,276.56	30,995,543.23
FYE Market Adjustment		-\$3,455,812.78	\$5,122,228.31	\$1,480,794.40	\$9,204,246.04	-7,608,801.00	\$4,742,654.97
Revenues - Expenses with Market Adjustment		\$4,248,440.94	\$9,537,693.79	\$8,351,199.82	\$13,864,317.46	-\$266,524.44	\$35,735,127.57

ASSET BREAKDOWN as of 6/30/04 Restoration Fund

				SBC RESERVE FUND FYE 04			
Security Name	Maturity	Book Value	Market Value		Book Value	Market Value	
Ashland Inc.	8/15/05	\$1,500,000	\$1,576,140		\$14.2 million	\$14.6 million	
Ensco Offshore Co	12/01/15	\$3,833,395	\$4,139,453				
Ford Motor Credit	7/16/04	\$5,000,542	\$5,009,586				
General Motors Accep. Corp.	7/15/05	\$2,999,409	\$3,139,226				
JP Morgan Chase Loan Trust	7/12/35	\$4,637,634	\$4,564,472				
Trust Fund Bond Pool		\$125,998,117	\$130,282,877				
Short Term Investment Pool		\$5,297,080	\$5,297,080				
Total		\$149,266,177	\$154,008,834				

Note: This table does not include SBC Reserve Fund or market adjustment